CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Fiscal Years Ended December 30, 2006
December 31, 2005 And January 1, 2005

(amounts in thousands)	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES–			
Net earnings	$ 42,377	$ 32,178	$ 23,588
Adjustments to reconcile net earnings to net cash provided by operating activities–			
Depreciation and amortization	4,861	3,554	3,612
Non-cash share-based compensation	4,584	3,310	119
Deferred taxes	677	807	7,574
Debt extinguishment	—	—	1,154
Non-cash adjustments to lease reserves	—	—	(1,887)
Unrealized gain on derivative financial instruments	—	—	(265)
Changes in assets and liabilities, net of acquisitions			
Accounts receivable, net	(11,366)	(3,608)	(2,980)
Inventories, net	(4,030)	(1,323)	(7,004)
Prepaid expenses and other assets	3,582	7,222	(10,193)
Accounts payable	1,062	536	(682)
Accrued expenses and other liabilities	8,322	(417)	5,486
Net cash provided by operating activities	50,069	42,259	18,522
CASH FLOWS FROM INVESTING ACTIVITIES–			
Additions to property and equipment	(2,267)	(1,376)	(1,199)
Acquisition of Blodgett	—	—	(2,000)
Acquisition of Nu-Vu	—	(11,450)	—
Acquisition of Alkar	(1,500)	(28,195)	—
Acquisition of Houno	(4,939)	—	—
Net cash (used in) investing activities	(8,706)	(41,021)	(3,199)
CASH FLOWS FROM FINANCING ACTIVITIES–			
Net (repayments) under previous revolving credit facilities	—	—	(1,500)
Net (repayments) under previous senior secured bank notes	—	—	(53,000)
Net (repayments) proceeds under current revolving credit facilities	(26,150)	4,985	51,265
(Repayments) proceeds under current senior secured bank notes	(12,500)	(10,000)	70,000
(Repayments) proceeds under foreign bank loan	(1,936)	3,200	—
Repayments under note agreement	(2,145)	(313)	—
Debt issuance costs	—	—	(1,509)
Issuance (Repurchase) of treasury stock	9	—	(77,187)
Payment of special dividend	—	—	(3,696)
Net proceeds from stock issuances	789	977	349
Net cash (used in) financing activities	(41,933)	(1,151)	(15,278)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	153	(51)	106
CASH ACQUIRED IN ACQUISITIONS	43	69	—
CHANGES IN CASH AND CASH EQUIVALENTS-			
Net (decrease) increase in cash and cash equivalents	(374)	105	151
Cash and cash equivalents at beginning of year	3,908	3,803	3,652
Cash and cash equivalents at end of year	$ 3,534	$ 3,908	$ 3,803

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS

The Middleby Corporation (the "company") is engaged in the design, manufacture and sale of commercial and industrial foodservice equipment. The company manufactures and assembles this equipment at six factories in the United States, one factory in the Philippines and one factory in Denmark. The company operates in three business segments: 1) the commercial foodservice equipment group, 2) the industrial foodservice equipment group and 3) the international distribution division.

The commercial foodservice equipment group manufactures conveyor ovens, convection ovens, fryers, ranges, toasters, combi ovens, steamers, broilers, deck ovens, baking ovens, proofers and counter-top cooking and warming equipment. End-user customers include: (i) fast food or quick-service restaurants, (ii) full-service restaurants, including casual-theme restaurants, (iii) retail outlets, such as convenience stores, supermarkets and department stores and (iv) public and private institutions, such as hotels, resorts, schools, hospitals, long-term care facilities, correctional facilities, stadiums, airports, corporate cafeterias, military facilities and government agencies. Included in these customers are several large multi-national restaurant chains, which account for a significant portion of the company's business, although no single customer accounts for more than 10% of net sales. The company's domestic sales are primarily through independent dealers and distributors and are marketed by the company's sales personnel and network of independent manufacturers' representatives.

The industrial foodservice equipment group manufactures batch ovens, conveyor ovens, continuous cooking systems and food packaging equipment. Customers include food processing companies. Included in these companies are several large international food processing companies, which account for a significant portion of the revenues of this business segment, although none of which is greater than 10% of net sales. The sales of the business are made through its direct sales force.

The international distribution division provides sales, technical service and distribution services for the commercial foodservice industry. This division sells and support the products manufactured by the company's commercial foodservice equipment business. This business operates through a combined network of independent and company-owned distributors. The company maintains regional sales offices in Asia, Europe and Latin America complemented by sales and distribution offices in China, India, Lebanon, Mexico, the Philippines, Russia, Spain, South Korea, Sweden, Taiwan and the United Kingdom.

The company purchases raw materials and component parts, the majority of which are standard commodity type materials, from a number of suppliers. Although certain component parts are procured from a sole source, the company can purchase such parts from alternate vendors.

The company has numerous licenses and patents to manufacture, use and sell its products and equipment. Management believes the loss of any one of these licenses or patents would not have a material adverse effect on the financial and operating results of the company.

(2) PURCHASE ACCOUNTING

Nu-Vu

On January 7, 2005, Middleby Marshall Holdings, LLC, a wholly-owned subsidiary of the company, completed its acquisition of the assets of Nu-Vu Foodservice Systems ("Nu-Vu"), a leading manufacturer of baking ovens, from Win-Holt Equipment Corporation ("Win-Holt") for $12.0 million in cash. In September 2005, the company reached final settlement with Win-Holt on post-closing adjustments pertaining to the acquisition of Nu-Vu. As a result, the final purchase price was reduced by $550,000.

The company has accounted for this business combination using the purchase method to record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair value of the assets acquired and liabilities assumed has been recorded as goodwill in the financial statements.

The final allocation of cash paid for the Nu-Vu acquisition is summarized as follows:

(dollars in thousands)	Jan. 7, 2005	Adjustments	Dec. 31, 2005
Current assets	$ 2,556	$ 242	$ 2,798
Property, plant and equipment	1,178	—	1,178
Deferred taxes	3,637	(336)	3,301
Goodwill	4,566	252	4,818
Other intangibles	2,188	(875)	1,313
Current liabilities	(2,125)	167	(1,958)
Total cash paid	$ 12,000	$ (550)	$ 11,450

The goodwill and other intangible assets associated with the Nu-Vu acquisition, which are comprised of the tradename, are subject to the non-amortization provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," and are allocable to the company's Commercial Foodservice Equipment Group for purposes of segment reporting (see footnote 12 for further discussion). Goodwill and other intangible assets associated with this transaction are deductible for income taxes.

Alkar

On December 7, 2005 the company acquired the stock of Alkar Holdings, Inc. ("Alkar") for $26.7 million in cash. Cash paid at closing amounted to $28.2 million and included $1.5 million of estimated working capital adjustments determined at closing. In April 2006, the company reached final settlement of post-close adjustments, which resulted in an additional payment of $1.5 million.

The company has accounted for this business combination using the purchase method to record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair value of the assets acquired and liabilities assumed has been recorded as goodwill in the financial statements.

The final allocation of cash paid for the Alkar acquisition is summarized as follows:

(dollars in thousands)	Dec. 7, 2005	Adjustments	Dec. 30, 2006
Current assets	$ 17,160	$ (1,545)	$ 15,615
Property, plant and equipment	3,032	(160)	2,872
Goodwill	19,177	1,015	20,192
Other intangibles	7,960	—	7,960
Current liabilities	(16,003)	1,509	(14,494)
Long-term deferred tax liability	(3,131)	681	(2,450)
Total cash paid	$ 28,195	$ 1,500	$ 29,695

The goodwill and $5.0 million of trademarks included in other intangibles are subject to the nonamortization provisions of SFAS No. 142 from the date of acquisition. Other intangibles also includes $2.1 million allocated to customer relationships, $0.6 million allocated to backlog, and $0.3 million allocated to developed technology which are amortized over periods of 10 years, 7 months, and 14 years respectively. Goodwill and other intangibles of Alkar are allocated to the Industrial Foodservice Equipment Group for segment reporting purposes. These assets are not deductible for tax purposes.

Houno

On August 31, 2006, the company acquired the stock of Houno A/S ("Houno") located in Denmark for $4.9 million in cash. The company also assumed $3.7 million of debt included as part of the net assets of Houno.

The company has accounted for this business combination using the purchase method to record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair value of the assets acquired and liabilities assumed has been recorded as goodwill in the financial statements. The allocation of the purchase price to the assets, liabilities and intangible assets is under review and is subject to change based upon finalization of the valuation of the assets and liabilities acquired.

The preliminary allocation of cash paid for the Houno acquisition is summarized as follows:

(dollars in thousands)	Aug. 31, 2006	Adjustments	Dec. 30, 2006
Current assets	$ 4,325	$ —	$ 4,325
Property, plant and equipment	4,371	—	4,371
Goodwill	1,287	199	1,486
Other intangibles	1,139	(199)	940
Other assets	92	—	92
Current liabilities	(3,061)	—	(3,061)
Long-term debt	(2,858)	—	(2,858)
Long-term deferred tax liability	(356)	—	(356)
Total cash paid	$ 4,939	$ —	$ 4,939

The goodwill is subject to the nonamortization provisions of SFAS No. 142 from the date of acquisition. Other intangibles also includes $0.1 million allocated to backlog and $1.0 million allocated to developed technology which are amortized over periods of 1 month and 5 years, respectively. Goodwill and other intangibles of Houno are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not deductible for tax purposes.

(3) STOCK REPURCHASE TRANSACTION

On December 23, 2004 the company repurchased 1,808,774 shares of its common stock and 271,000 options from William F. Whitman, Jr., the former chairman of the company's board of directors, members of his family and trusts controlled by his family (collectively, the "Whitmans") in a private transaction for a total aggregate purchase price of $83,974,578 in cash. The repurchased shares represented 19.6% of the company's outstanding shares and were repurchased for $75,968,508 at $42.00 per share which represented a 12.8% discount to the closing market price of $48.19 of the company's common stock on December 23, 2004 and a 21.7% discount from the $53.64 average closing price over the thirty trading days prior to the repurchase. The company incurred $1.2 million of transaction costs associated with the repurchase of these shares. The 271,000 stock options were purchased for $8,006,070, which represented the difference between $42.00 and the exercise price of the option. In conjunction with the stock repurchase, the Whitmans resigned as directors of the company.

The company financed the share repurchase with borrowings under its senior bank facility that was established in connection with this transaction.

In conjunction with the transaction the company recorded $13.8 million of expenses, which were comprised of the following items:

(dollars in thousands)

Compensation related expense	$ 8,225
Pension settlement	1,947
Financial advisor fees	1,899
Other professional fees	576
Subtotal	12,647
Debt extinguishment costs	1,154
Total	$13,801

The $8.2 million in compensation expense includes the value of the 271,000 repurchased stock options along with the employer portion of related payroll taxes.

In February 2005, the company settled all pension obligations associated with William F. Whitman, Jr., the former chairman of the company's board of directors for $7.5 million in cash. In conjunction with this transaction, the company recorded $1.9 million in settlement costs representing the difference between the settlement amount and the accrued pension liability at the time of the transaction.

Debt extinguishment costs of $1.2 million represent the write-off of deferred financing costs pertaining to the company's prior financing agreements which were paid prior to the maturity of the agreement utilizing funds under the company's new senior debt agreement completed in order to finance the stock repurchase transaction.

(4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The company's fiscal year ends on the Saturday nearest December 31. Fiscal years 2006, 2005 and 2004 ended on December 30, 2006, December 31, 2005 and January 1, 2005, respectively, and each included 52 weeks.

(b) Cash and Cash Equivalents

The company considers all short-term investments with original maturities of three months or less when acquired to be cash equivalents. The company's policy is to invest its excess cash in U.S. Government securities, interest-bearing deposits with major banks, municipal notes and bonds and commercial paper of companies with strong credit ratings that are subject to minimal credit and market risk.

(c) Accounts Receivable

Accounts receivable, as shown in the consolidated balance sheets, are net of allowances for doubtful accounts of $5,101,000 and $3,081,000 at December 30, 2006 and December 31, 2005, respectively.

(d) Inventories

Inventories are composed of material, labor and overhead and are stated at the lower of cost or market. Costs for inventories at two of the company's manufacturing facilities have been determined using the last-in, first-out ("LIFO") method. These inventories under the LIFO method amounted to $16.9 million in 2006 and $15.4 million in 2005 and represented approximately 36% and 38% of the total inventory in each respective year. Costs for all other inventory have been determined using the first-in, first-out ("FIFO") method. The company estimates reserves for inventory obsolescence and shrinkage based on its judgment of future realization. Inventories at December 30, 2006 and December 31, 2005 are as follows:

(dollars in thousands)	2006	2005
Raw materials and parts	$ 15,795	$ 11,311
Work in process	6,642	6,792
Finished goods	25,127	22,654
	47,564	40,757
LIFO reserve	(272)	232
	$ 47,292	$ 40,989

(e) Property, Plant and Equipment

Property, plant and equipment are carried at cost as follows:

(dollars in thousands)	2006	2005
Land	$ 5,055	$ 5,047
Building and improvements	25,194	20,365
Furniture and fixtures	9,662	9,234
Machinery and equipment	25,629	24,746
	65,540	59,392
Less accumulated depreciation	(37,006)	(34,061)
	$ 28,534	$ 25,331

Property and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management's estimates of the period over which the assets will be utilized to benefit the operations of the company. The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. The company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment or if technological changes were to occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense in future periods.

Following is a summary of the estimated useful lives:

Description	Life
Building and improvements	20 to 40 years
Furniture and fixtures	3 to 7 years
Machinery and equipment	3 to 10 years

Depreciation expense is provided for using the straight-line method and amounted to $3,419,000, $3,235,000 and $3,150,000 in fiscal 2006, 2005 and 2004, respectively.

Expenditures which significantly extend useful lives are capitalized. Maintenance and repairs are charged to expense as incurred. Asset impairments are recorded whenever events or changes in circumstances indicate that the recorded value of an asset is less than the sum of its expected future undiscounted cash flows.

(f) Goodwill and Other Intangibles

Goodwill and other intangibles are reviewed for impairment annually or whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. For long-lived assets held for use, an impairment loss is recognized when the estimated undiscounted cash flows produced by an asset are less than the asset's carrying value. Estimates of future cash flows are judgments based on the company's experience and knowledge of operations. These estimates can be significantly impacted by many factors including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. If the company's estimates or the underlying assumptions change in the future, the company may be required to record impairment charges.

Intangible assets consist of the following (dollars in thousands):

December 30, 2006

Amortized intangible assets:	Estimated Life	Gross Carrying Amount	Accumulated Amortization
Customer lists	2 to 10 yrs	$ 2,447	$ (277)
Backlog	4 to 7 mos	927	(927)
Developed technology	7 yrs	492	(62)
		$ 3,866	$ (1,266)
Unamortized intangible assets:			
Trademarks and tradenames		$ 32,706	
		$ 32,706	

December 31, 2005

Amortized intangible assets:	Estimated Life	Gross Carrying Amount	Accumulated Amortization
Customer lists	10 yrs	$ 2,100	$ (12)
Backlog	7 mos	600	(60)
Developed technology	7 yrs	260	(2)
		$ 2,960	$ (74)
Unamortized intangible assets:			
Trademarks and tradenames		$ 32,612	
		$ 32,612	

The aggregate intangible amortization expense was $1.2 million and $0.1 million in 2006 and 2005, respectively. The estimated future amortization expense of intangible assets is as follows (in thousands):

(dollars in thousands)	
2007	$ 455
2008	399
2009	280
2010	280
2011	280
Thereafter	906
	$ 2,600

(g) Accrued Expenses

Accrued expenses consist of the following at December 30, 2006 and December 31, 2005, respectively:

(dollars in thousands)	2006	2005
Accrued payroll and related expenses	$ 16,564	$ 15,577
Accrued customer rebates	13,119	10,740
Accrued warranty	11,292	11,286
Accrued product liability and workers comp	4,361	2,418
Advanced customer deposits	3,615	6,204
Other accrued expenses	20,685	16,464
	$ 69,636	$ 62,689

(h) Litigation Matters

From time to time, the company is subject to proceedings, lawsuits and other claims related to products, suppliers, employees, customers and competitors. The company maintains insurance to partially cover product liability, workers compensation, property and casualty, and general liability matters. The company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after assessment of each matter and the related insurance coverage. The required accrual may change in the future due to new developments or changes in approach such as a change in settlement strategy in dealing with these matters. The company does not believe that any such matter will have a material adverse effect on its financial condition, results of operations or cash flows of the company.

(i) Other Comprehensive Income

The following table summarizes the components of accumulated other comprehensive income (loss) as reported in the consolidated balance sheets:

(dollars in thousands)	2006	2005
Unrecognized pension benefit costs, net of tax	$ (1,042)	$ (1,259)
Unrealized gain on interest rate swap, net of tax	612	743
Currency translation adjustments	867	(78)
	$ 437	$ (594)

(j) Fair Value of Financial Instruments

Due to their short-term nature, the carrying value of the company's cash and cash equivalents and receivables approximate fair value. The value of long-term debt, which is disclosed in Note 5, approximates fair value. The company's derivative instruments are based on market prices when available or are derived from financial valuation methodologies.

(k) Foreign Currency

Foreign currency transactions are accounted for in accordance with SFAS No. 52 "Foreign Currency Translation." The income statements of the company's foreign operations are translated at the monthly average rates. Assets and liabilities of the company's foreign operations are translated at exchange rates at the balance sheet date. These translation adjustments are not included in determining net income for the period but are disclosed

and accumulated in a separate component of stockholders' equity. Exchange gains and losses on foreign currency transactions are included in determining net income for the period in which they occur. These transactions amounted to a loss of $0.2 million, $0.1 million and $0.6 million, respectively, in fiscal 2006, 2005 and 2004, respectively.

(l) Revenue Recognition

The company recognizes revenue on the sale of its products when risk of loss has passed to the customer, which occurs at the time of shipment, and collectibility is reasonably assured. The sale prices of the products sold are fixed and determinable at the time of shipment. Sales are reported net of sales returns, sales incentives and cash discounts based on prior experience and other quantitative and qualitative factors.

At the industrial foodservice equipment group, the company enters into long-term sales contracts for certain products. Revenue under these long-term sales contracts is recognized using the percentage of completion method prescribed by Statement of Position No. 81-1 due to the length of time to fully manufacture and assemble the equipment. The company measures revenue recognized based on the ratio of actual labor hours incurred in relation to the total estimated labor hours to be incurred related to the contract. The percentage of completion method of accounting for these contracts most accurately reflects the status of these uncompleted contracts in the company's financial statements and most accurately measures the matching of revenues with expenses. At the time a loss on a contract becomes known, the amount of the estimated loss is recognized in the consolidated financial statements.

(m) Warranty Costs

In the normal course of business the company issues product warranties for specific product lines and provides for the estimated future warranty cost in the period in which the sale is recorded. The estimate of warranty cost is based on contract terms and historical warranty loss experience that is periodically adjusted for recent actual experience. Because warranty estimates are forecasts that are based on the best available information, claims costs may differ from amounts provided. Adjustments to initial obligations for warranties are made as changes in the obligations become reasonably estimable.

A rollforward of the warranty reserve is as follows:

(dollars in thousands)	2006	2005
Beginning balance	$ 11,286	$ 10,563
Warranty expense	9,258	8,916
Warranty claims	(9,252)	(8,193)
Ending balance	$ 11,292	$ 11,286

(n) Research and Development Costs

Research and development costs, included in cost of sales in the consolidated statements of earnings, are charged to expense when incurred. These costs were $4,575,000, $2,767,000 and $2,537,000 in fiscal 2006, 2005 and 2004, respectively.

(o) Share-Based Compensation

On January 1, 2006, the company adopted SFAS No. 123R, which requires, among other changes, that the cost resulting from all share-based payment transactions be recognized as compensation cost over the vesting period based on the fair value of the instrument on the date of grant. SFAS No. 123R revises SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), which previously allowed pro forma disclosure of certain share-based compensation expense. Further, SFAS No. 123R supercedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," which previously allowed the intrinsic value method of accounting for stock options.

The company adopted SFAS No. 123R as of January 1, 2006, using the modified prospective transition method. In accordance with the modified prospective transition method, the company's consolidated financial statements for the prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Share-based compensation expense of $4.6 million was recognized for 2006, including $1.1 million associated with stock options and $3.5 million associated with stock grants.

Prior to the adoption of SFAS No. 123R, there was no share-based compensation expense recorded for stock options recognized in the statement of income during fiscal 2005 and 2004. Share-based compensation expense recorded for stock options in 2006 as a result of the adoption of SFAS No. 123R was $1.1 million, or $0.8 million, net of tax. The additional expense resulted in a reduction of $0.09 to diluted earnings per share.

Prior to the adoption of SFAS No. 123R, the company had recorded share-based compensation expense related to stock grants as required by APB Opinion No. 25. In accordance with APB No. 25, the company established the value of a stock grant based upon the market value of the

stock at the time of issuance. Under APB No.25 the value of the stock grant is amortized and recorded as compensation expense over the applicable vesting period. The company issued stock grants with a fair value of $12.8 million in 2005 and $4.8 million in 2004. Share-based compensation expense of $3.5 million, $3.3 million and $0.1 million has been recorded related to the vesting of these stock grants in 2006, 2005 and 2004, respectively.

As of December 30, 2006, there was $12.3 million of total unrecognized compensation cost related to nonvested share-based stock option and stock grant compensation arrangements, of which $4.1 million, $4.4 million and $3.8 million is expected to be recognized in 2007, 2008 and 2009, respectively.

The following table illustrates the pro forma effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS No. 123R and recognized share-based compensation expense associated with stock options during 2005 and 2004:

(dollars in thousands except per share data)	2005	2004
Net income – as reported	$ 32,178	$ 23,588
Less: Stock-based employee compensation expense, net of taxes	683	442
Net income – pro forma	$ 31,495	$ 23,146
Earnings per share – as reported:		
Basic	$ 4.28	$ 2.56
Diluted	3.98	2.38
Earnings per share – pro forma:		
Basic	$ 4.19	$ 2.52
Diluted	3.89	2.33

The weighted average fair value for the options granted in 2006, 2005 and 2004 was $36.10, $19.11 and $8.35, respectively. The weighted average fair value for options vested in 2006 was $9.18 pre share with an aggregate fair value of $757,000. The fair value of the options was estimated using Black-Scholes and binomial option-pricing models, based on the average market price at the grant date and the weighted average assumptions specific to the underlying options.

Option valuation models require the input of highly subjective assumptions. As the company's options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. Expected volatility assumptions are based on historical volatility of the company's stock. Expected life assumptions for 2006 are based on the "simplified" method as described in SEC SAB No. 107, which is the midpoint between the vesting date and the end of the contractual term. The risk-free interest rate was selected based upon yields of U.S. Treasury issues with a term equal to the expected life of the option being valued. The weighted average assumptions utilized for option grants during the periods presented are as follows:

	2006	2005
Stock options assumptions (weighted average):		
Volatility	40.0%	40.0%
Expected life (years)	4.6	4.5
Risk-free interest rate	5.0%	3.9%
Dividend yield	0.0%	0.0%

There were no options grants in 2004.

(p) Earnings Per Share

In accordance with SFAS No. 128 "Earnings Per Share", "basic earnings per share" is calculated based upon the weighted average number of common shares actually outstanding, and "diluted earnings per share" is calculated based upon the weighted average number of common shares outstanding, warrants and other dilutive securities.

The company's potentially dilutive securities consist of shares issuable on exercise of outstanding options computed using the treasury method and amounted to 616,000, 579,000 and 731,000 for fiscal 2006, 2005 and 2004, respectively.

(q) Consolidated Statements of Cash Flows

Cash paid for interest was $6.1 million, $6.0 million and $2.6 million in fiscal 2006, 2005 and 2004, respectively. Cash payments totaling $11.4 million, $16.3 million and $16.9 million were made for income taxes during fiscal 2006, 2005 and 2004, respectively.

In 2006, net income included $4.6 million of non cash pretax expense related to non-cash share-based compensation (see note 6). In 2005 net income included $3.3 million of non cash pretax expense related to non-cash share-based compensation (see note 6). In 2004, net income included in the cash flows from operations had a non-cash expense of $1.2 million pretax related to the early extinguishment of debt (see Note 3), $0.1 million pretax related to a non-cash share-based compensation (see Note 6) and $1.9 million related to lease reserve adjustments. These non-cash items have been added back as adjustments to reconcile net earnings to net cash provided by operating activities.

(r) New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs – an amendment of ARB No. 43, Chapter

4". This statement amends the guidance in ARB No. 43, Chapter 4 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This statement requires that these items be recognized as current period costs and also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this statement did not have a material effect on the company's financial position, results of operations or cash flows.

In December 2004, FASB issued a revision to SFAS No. 123 "Accounting for Stock Based Compensation". SFAS No. 123(R) "Share-Based Payment" requires all new, modified, and unvested share-based payments to employees to be recognized in the financial statements as compensation cost over the service period based upon their fair value on the date of grant. This statement eliminates the alternative of accounting for share-based compensation under Accounting Principles Board Opinion No. 25. The statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The company adopted SFAS No. 123(R) on January 1, 2006 under the modified prospective application transition method. Accordingly, the adoption of SFAS No. 123(R) resulted in a reduction to net earnings of $754,000, or $0.09 per share for the year ended December 30, 2006.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3". This statement replaces ABP Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Changes in Interim Financial Statements and changes the requirements for the accounting for and reporting of a change in accounting principles. This statement applies to all voluntary changes in accounting principles. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on the company's financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140". This statement provides entities with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with SFAS No. 133. This statement allows an entity to make an irrevocable election to measure such a hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings. This statement is effective for all financial instruments acquired, issued, or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The company will apply this guidance prospectively. The adoption of this statement did not have a material effect on the company's financial position, results of operations or cash flows.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This interpretation requires that a recorded tax benefit must be more likely than not of being sustained upon examination by tax authorities based upon its technical merits. The amount of benefit recorded is the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Upon adoption, any adjustment will be recorded directly to beginning retained earnings. The interpretation is effective for fiscal years beginning after December 15, 2006. The company will apply this guidance prospectively. The company has not yet determined what impact the application of the interpretation will have on the company's financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement does not require any new fair value measurements. This statement is effective for interim reporting periods in fiscal years beginning after November 15, 2007. The company will apply this guidance prospectively.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)". This statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset of liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. This statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. Employers with publicly traded equity securities are required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15,

2006. The company adopted the applicable provisions of SFAS No. 158 effective for the fiscal year ended December 30, 2006 as required.

(5) FINANCING ARRANGEMENTS

The following is a summary of long-term debt at December 30, 2006 and December 31, 2005:

(dollars in thousands)	2006	2005
Senior secured revolving credit line	$ 30,100	$ 56,250
Senior secured bank term loans	47,500	60,000
Foreign loans	5,202	3,200
Other note	—	2,145
Total debt	$ 82,802	$ 121,595
Less current maturities of long-term debt	16,838	13,780
Long-term debt	$ 65,964	$ 107,815

During the fourth quarter of 2005, the company amended its senior secured credit facility. Terms of the agreement currently provide for $47.5 million of term loans and $130.0 million of availability under a revolving credit line. As of December 30, 2006, the company had $77.6 million outstanding under this facility, including $30.1 million of borrowings under the revolving credit line. The company also had $5.2 million in outstanding letters of credit, which reduced the borrowing availability under the revolving credit line.

Borrowings under the senior secured credit facility are assessed at an interest rate of 1. 00% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate for short term borrowings. At December 30, 2006 the average interest rate on the senior debt amounted to 6.49%. The interest rates on borrowings under the senior bank facility may be adjusted quarterly based on the company's defined indebtedness ratio on a rolling four-quarter basis. Additionally, a commitment fee, based upon the indebtedness ratio is charged on the unused portion of the revolving credit line. This variable commitment fee amounted to 0.20% as of December 30, 2006.

In August 2006, the company completed its acquisition of Houno A/S in Denmark. This acquisition was funded in part with locally established debt facilities with borrowings in Danish Krone. On December 30, 2006 these facilities amounted to $3.8 million in U.S. dollars, including $0.9 million outstanding under a revolving credit facility, $2.1 million of a term loan and $0.8 million of a long term mortgage note. The interest rate on the revolving credit facility is assessed at 1.25% above Euro LIBOR, which amounted to 5.15% on December 30, 2006. The term loan matures in 2013 and the interest rate is assessed at 5.0%. The long-term mortgage note matures in March 2023 and is assessed interest at a fixed rate of 5.19%.

In December 2005, the company entered into a $3.2 million U.S. dollar secured term loan at its subsidiary in Spain. This term loan amortizes in equal monthly installments over a four-year period ending December 2009. As of December 30, 2006, the company had $1.4 million of borrowings remaining under this loan. Borrowings under this facility are assessed at an interest rate of 0.45% above LIBOR. At December 30, 2006 the interest rate on this loan was 5.82%.

In November 2004, the company entered into a promissory note in conjunction with the release and early termination of obligations under a lease agreement relative to a manufacturing facility in Shelburne, Vermont. The company fully repaid the $2.1 million remaining balance on the note in 2006.

The company has historically entered into interest rate swap agreements to effectively fix the interest rate on its outstanding debt. In January 2002, the company had entered into an interest rate swap agreement for a notional amount of $20.0 million. This agreement swapped one-month LIBOR for a fixed rate of 4.03% and was in effect through December 2004. In February 2003, the company entered into an interest rate swap agreement for a notional amount of $10.0 million. This agreement swapped one-month LIBOR for a fixed rate of 2.36% and was in effect through December 2005. In January 2005, the company entered into an interest rate swap agreement for a notional amount of $70.0 million. This agreement swaps one-month LIBOR for a fixed rate of 3.78%. The notional amount amortizes consistent with the repayment schedule of the company's term loan maturing November 2009. The unamortized amount of this swap was $47.5 million at December 30, 2006. In January 2006, the company entered into an interest rate swap agreement for a notional amount of $10.0 million maturing on December 21, 2009. This agreement swaps one-month LIBOR for a fixed rate of 5.03%. In August 2006, in conjunction with

the Houno acquisition, the company assumed an interest rate swap with a notional amount of $0.9 million Euro maturing on December 31, 2018. This agreement swaps one-month Euro LIBOR for a fixed rate of 4.84%.

The terms of the senior secured credit facility limit the paying of dividends, capital expenditures and leases, and require, among other things, certain ratios of indebtedness and fixed charge coverage. The credit agreement also provides that if a material adverse change in the company's business operations or conditions occurs, the lender could declare an event of default. Under terms of the agreement a material adverse effect is defined as (a) a material adverse change in, or a material adverse effect upon, the operations, business properties, condition (financial and otherwise) or prospects of the company and its subsidiaries taken as a whole; (b) a material impairment of the ability of the company to perform under the loan agreements and to avoid any event of default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the company of any loan document. A material adverse effect is determined on a subjective basis by the company's creditors. At December 30, 2006, the company was in compliance with all covenants pursuant to its borrowing agreements.

The aggregate amount of debt payable during each of the next five years is as follows:

(dollars in thousands)

2007	$ 16,838
2008	15,645
2008	47,706
2009	111
2010 and thereafter	2,502
	$ 82,802

As of December 31, 2005, the company had $116.3 million outstanding under its senior secured credit facility, including $56.3 million of borrowings under the revolving credit line. The company also had $8.5 million in outstanding letters of credit at December 31, 2005. At December 31, 2005 the average interest rate on the senior debt amounted to 5.7%.

As of December 31, 2005, the company had $3.2 million outstanding in an U.S. Dollar secured term loan at its subsidiary in Spain. At December 31, 2005, the average interest rate was 4.83%.

As of December 31, 2005 the company had $2.1 million in notes outstanding in conjunction with the release and early termination of obligations under a lease agreement. At December 31, 2005 the interest rate on the note was approximately 8.29%. The company fully retired this note in September 2006.

(6) COMMON AND PREFERRED STOCK

(a) Shares Authorized and Issued

At December 30, 2006 and December 31, 2005, the company had 20,000,000 shares of common stock and 2,000,000 shares of Non-voting Preferred Stock authorized. At December 30, 2006, there were 7,952,723 common stock shares outstanding.

(b) Treasury Stock

In July 1998, the company's Board of Directors adopted a stock repurchase program and during 1998 authorized the purchase of up to 1,800,000 common shares in open market purchases. As of December 30, 2006, 952,999 shares had been purchased under the 1998 stock repurchase program and 847,001 remain authorized for repurchase.

In October 2000, the company's Board of Directors approved a self tender offer that authorized the purchase of up to 1,500,000 common shares from existing stockholders at a per share price of $7.00. On November 22, 2000 the company announced that 1,135,359 shares were accepted for payment pursuant to the tender offer for $7.9 million.

On December 23, 2004, the company repurchased 1,808,774 shares at a $42.00 per share of its common stock from the chairman of the company's board of directors, members of his family and trusts controlled by his family upon his retirement from the company. The aggregate cost of the stock repurchase including transaction related costs was $77.2 million.

At December 30, 2006, the company had a total of 3,855,044 shares in treasury amounting to $89.6 million.

(c) Share-Based Awards

The company maintains a 1998 Stock Incentive Plan (the "Plan"), as amended on December 15, 2003, under which the company's Board of Directors issues stock options and stock grants to key employees. A maximum amount of 1,750,000 shares can be issued under the Plan. Stock options issued under the plan provide key employees with rights to purchase shares of common stock at specified exercise prices. Options may be exercised upon certain vesting requirements being met, but expire to the extent unexercised within a maximum of ten years from the date of grant. Stock grants issued to employees are transferable upon certain vesting requirements being met.

As of December 30, 2006, a total of 1,582,160 share based awards have been issued under the plan. This includes 351,000 stock grants, of which 210,000 remain unvested and 1,231,160 stock options, of which 547,683 have been exercised and 683,477 remain outstanding.

In addition to shares under the 1998 Employee Stock Incentive Plan, certain directors of the company have outstanding stock options. As of December 30, 2006, there were 6,500 shares outstanding, all of which are vested.

The company issues share-based awards from its common stock held in treasure. The company does not anticipate it will be required to repurchase any additional share of common stock in 2007 to satisfy obligations under its share-based award programs.

A summary of stock option activity under the 1998 Employee Stock Incentive Plan is presented below:

Stock Option Activity	Shares	Weighted Average Exercise Price
Outstanding at January 3, 2004:	995,500	$13.16
Granted	—	—
Exercised	(32,023)	$ 8.00
Forfeited	(15,277)	$10.94
Repurchased	(250,000)	$12.86
Outstanding at January 1, 2005:	698,200	$13.56
Granted	100,000	—
Exercised	(49,175)	$ 9.78
Forfeited	(13,000)	$10.22
Outstanding at December 31, 2005:	736,025	$19.25
Granted	—	—
Exercised	(52,548)	$14.33
Forfeited	—	—
Outstanding at December 30, 2006:	683,477	$19.59
Aggregate intrinsic value (dollars in thousands)	$ 58,150	
Exercisable at December 30, 2006:	545,637	$16.38
Aggregate intrinsic value (dollars in thousands)	$ 42,277	

A summary of the stock option activity under the Director Plan is presented below:

Stock Option Activity	Shares	Weighted Average Exercise Price
Outstanding at January 3, 2004:	97,500	$8.20
Granted	—	—
Exercised	(13,000)	$ 7.15
Forfeited	(7,500)	$11.72
Repurchased	(21,000)	$ 7.72
Outstanding at January 1, 2005:	56,000	$ 8.15
Granted	—	—
Exercised	(50,000)	$ 7.86
Forfeited	—	—
Outstanding at December 31, 2005:	6,000	$10.51
Granted	3,500	$88.43
Exercised	(3,000)	$10.51
Forfeited	—	—
Outstanding at December 30, 2006:	6,500	$52.47
Aggregate intrinsic value (dollars in thousands)	$ 339	
Exercisable at December 30, 2006:	6,500	$52.47
Aggregate intrinsic value (dollars in thousands)	$ 339	

There were no nonvested shares under the Director Plan as of December 30, 2006.

The following summarizes the options outstanding and exercisable under the stock plans by exercise price, at December 30, 2006:

Exercise Price	Options Outstanding	Weighted Average Remaining Life	Options Exercisable	Weighted Average Remaining Life
Employee plan				
$ 5.90	178,000	5.16	142,400	5.16
$10.51	68,100	6.18	40,860	6.18
$18.47	337,377	6.82	337,377	6.82
$53.93	100,000	8.17	25,000	8.17
	683,477	6.52	545,637	6.42
Director plan				
$10.51	3,000	1.18	3,000	1.18
$88.43	3,500	9.37	3,500	9.37
	6,500	5.59	6,500	5.59

A summary of the company's nonvested share grant activity under the 1998 Stock Incentive Plan and related information, for fiscal year ended December 30, 2006 is as follows:

Nonvested Shares	Shares	Weighted Average Grant-Date Fair Value
Nonvested at beginning of period	290,000	$ 48.98
Granted	—	—
Vested	(70,000)	49.01
Forfeited	—	—
Nonvested at end of period	220,000	$ 48.97

Additional information related to the share based compensation is as follows:

(dollars in thousands)	2006	2005	2004
Intrinsic value of options exercised	$ 4,010	$ 4,762	$ 1,827
Cash received from exercise	789	977	349
Tax benefit from option exercises	514	878	162

(7) INCOME TAXES

Earnings before taxes is summarized as follows:

(dollars in thousands)	2006	2005	2004
Domestic	$ 65,156	$ 45,603	$ 31,712
Foreign	4,652	5,795	2,132
Total	$ 69,808	$ 51,398	$ 33,844

The provision (benefit) for income taxes is summarized as follows:

(dollars in thousands)	2006	2005	2004
Federal	$ 21,189	$ 14,470	$ 7,126
State and local	4,582	3,663	2,467
Foreign	1,660	1,087	663
Total	$ 27,431	$ 19,220	$ 10,256
Current	$ 26,754	$ 18,413	$ 2,682
Deferred	677	807	7,574
Total	$ 27,431	$ 19,220	$ 10,256

Reconciliation of the differences between income taxes computed at the federal statutory rate to the effective rate are as follows:

	2006	2005	2004
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Permanent book vs. tax differences	(0.9)	(1.3)	(0.9)
State taxes, net of federal benefit	4.4	4.9	5.9
U.S. taxes on foreign earnings and foreign tax rate differentials	0.7	1.8	(0.2)
Reserve adjustments and other	0.1	(3.0)	(9.5)
Consolidated effective tax	39.3%	37.4%	30.3%

At December 30, 2006 and December 31, 2005, the company had recorded the following deferred tax assets and liabilities, which were comprised of the following:

(dollars in thousands)	2006	2005
Deferred tax assets:		
Compensation reserves	$ 5,613	$ 5,057
Warranty reserves	4,354	4,329
Inventory reserves	2,659	2,244
Accrued retirement benefits	1,290	1,526
Receivable related reserves	2,084	1,340
Accrued plant closure	1,200	1,177
Product liability reserves	697	665
Unicap	369	346
Other	1,178	659
Gross deferred tax assets	19,444	17,343
Valuation allowance	—	—
Deferred tax assets	$ 19,444	$ 17,343
Deferred tax liabilities:		
Intangible assets	$ (9,740)	$(10,595)
Depreciation	(2,941)	(3,364)
Foreign tax earnings repatriation	(1,208)	(776)
Interest rate swap	(408)	(496)
LIFO reserves	(163)	—
Deferred tax liabilities	$(14,460)	$(15,231)

The company's financial statements include amounts recorded for contingent tax liabilities with respect to loss contingencies that are deemed probable of occurrence. As those contingencies are resolved, whether by audit or the closing of a tax year, the company adjusts tax expense to reflect the expected resolution.

Pursuant to The American Jobs Creation Act of 2004 (The Act) enacted on October 22, 2004, the company evaluated provisions relating the repatriation of certain foreign earnings and their impact on the company. The Act provides for a special one-time tax deduction of 85 percent of certain foreign earnings that are repatriated, as defined in the Act. The company elected to apply this provision in 2005 and repatriated $4.7 million in earnings from its subsidiaries in Spain and Mexico. Additionally, the company has assessed the liability for unremitted foreign earnings anticipated to be remitted in future periods. On December 21, 2004, FASB Staff Position FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004", was issued. In accordance with FAS 109-2, the company recorded provisions for taxes on foreign earnings in its 2005 financial statements in the amount of $1.2 million.

(8) FINANCIAL INSTRUMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments. The statement requires an entity to recognize all derivatives as either assets or liabilities and measure those instruments at fair value. Derivatives that do not qualify as a hedge must be adjusted to fair value in earnings. If the derivative does qualify as a hedge under SFAS No. 133, changes in the fair value will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments or recognized in other accumulated comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a hedge's change in fair value will be immediately recognized in earnings.

(a) Foreign exchange

The company has entered into derivative instruments, principally forward contracts to reduce exposures pertaining to fluctuations in foreign exchange rates. The fair value of these forward contracts was less than $0.1 million at the end of the year.

(b) Interest rate swap

In January 2002, the company entered into an interest rate swap agreement with a notional amount of $20.0 million to fix the interest rate applicable to certain of its variable rate debt. The agreement swapped one-month LIBOR for a fixed rate of 4.03% and was in effect through December 2004.

In February 2003, the company entered into an interest rate swap agreement with a notational amount of $10.0 million to fix the interest rate applicable to certain of its variable rate debt. The agreement swaps one month LIBOR for a fixed rate of 2.36% and is in effect through December 2005. The interest rate swap has been designated as a hedge, and in accordance with SFAS No. 133 the changes in the fair value are recorded as a component of accumulated comprehensive income. The change in the fair value of the swap during 2005 was less than $0.1 million.

In January 2005, the company entered into an interest rate swap agreement with a notional amount of $70.0 million. The agreement swaps one month LIBOR for a fixed rate of 3.78%. The notional amount of the swap amortizes consistent with the repayment schedule of the company's senior term loan maturing in November 2009. The interest rate swap has been designated as a hedge, and in accordance with SFAS No. 133 the changes in the fair value are recorded as a component of accumulated comprehensive income. The change in the fair value of the swap during 2006 was a loss of $0.1 million and during 2005 was a gain of $0.7 million.

In January 2006, the company entered into an interest rate swap agreement for a notional amount of $10.0 million maturing on December 21, 2009. This agreement swaps one-month LIBOR for a fixed rate of 5.03%. This interest rate swap has been designated as a hedge, and in accordance with SFAS No. 133 the changes in the fair value are recorded as a component of accumulated comprehensive income. There was no material change in the value of the swap during 2006.

In August 2006, in conjunction with the Houno acquisition, the company assumed an interest rate swap with a notional amount of $1.2 million maturing on December 31, 2018. The agreement swaps one-month Euro LIBOR for a fixed rate of 4.84%. The interest rate swap has not been designated as an effective hedge and therefore all changes in the fair value are reflected in earnings.

(9) LEASE COMMITMENTS

The company leases warehouse space, office facilities and equipment under operating leases, which expire in fiscal 2007 and thereafter. The company also has a lease obligation for a manufacturing facility that was exited in conjunction with manufacturing consolidation efforts related to the acquisition of Blodgett. Future payment obligations under these leases are as follows:

(dollars in thousands)	Operating Leases	Idle Facility Leases	Total Lease Commitments
2007	$ 960	$ 333	$ 1,293
2008	818	337	1,155
2009	662	358	1,020
2010	356	432	788
2011 and thereafter	243	2,063	2,306
	$ 3,039	$ 3,523	$ 6,562

Rental expense pertaining to the operating leases was $0.9 million, $0.8 million, and $0.7 million in fiscal 2006, 2005, and 2004, respectively.

The idle lease obligations relate to a manufacturing facility in Quakerstown, Pennsylvania that was exited in 2001. Obligations under that lease extend through June 2015. The company has established reserves of $2.5 million to cover the costs of obligations under this lease, net of anticipated sublease income. Management believes the remaining reserve balance is adequate to cover costs associated with the lease obligation. However, the forecast of sublease income could differ from actual amounts, which are subject to the occupancy by a subtenant and a negotiated sublease rental rate. If the company's estimates or underlying assumptions change in the future, the company would be required to adjust the reserve amount accordingly.

In 2001 the company had also established reserves for a manufacturing facility in Shelburne, Vermont that was exited in 2002. During 2004 the company recorded adjustments to reduce this reserve by $1.9 million. The 2004 lease reserve adjustment reflected a reduction in obligations associated with this lease as a result of the sale of that property by the landlord, which allowed the company to negotiate an early exit from the lease.

(10) SEGMENT INFORMATION

The company operates in three reportable operating segments defined by management reporting structure and operating activities.

The commercial foodservice equipment business group manufactures cooking equipment for the restaurant and institutional kitchen industry. This business division has manufacturing facilities in Illinois, Michigan, New Hampshire, North Carolina, Vermont, Denmark and the Philippines. This division supports four major product groups, including conveyor oven equipment, core cooking equipment, counterline cooking equipment, and international specialty equipment. Principal product lines of the conveyor oven product group include Middleby Marshall ovens, Blodgett ovens and CTX ovens. Principal product lines of the core cooking equipment product group include the Southbend product line of ranges, steamers, convection ovens, broilers and steam cooking equipment, the Blodgett product line of ranges, convection ovens and combi ovens, the Houno product line of combi-ovens and baking ovens, MagiKitch'n charbroilers and catering equipment and the Pitco Frialator product line of fryers. The counterline cooking and warming equipment product group includes toasters, hot food servers, foodwarmers and griddles distributed under the Toastmaster brand name. The international specialty equipment product group is primarily comprised of food preparation tables, undercounter refrigeration systems, and component parts for the U.S. manufacturing operations.

The industrial foodservice equipment business group manufactures cooking and packaging equipment for the food processing industry. This business division has manufacturing operations in Lodi, Wisconsin. Its principal products include batch ovens, conveyorized ovens and continuous process ovens sold under the Alkar brand name and food packaging machinery sold under the RapidPak brandname.

The International Distribution Division provides integrated design, export management, distribution and installation services through its operations in China, India, Lebanon, Mexico, the Philippines, Russia, South Korea, Spain, Sweden Taiwan and the United Kingdom. The division sells the company's product lines and certain non-competing complementary product lines throughout the world. For a local country distributor or dealer, the company is able to provide a centralized source of foodservice equipment with complete export management and product support services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The chief decision maker evaluates individual segment performance based on operating income. Management believes that intersegment sales are made at established arms length transfer prices.

The following table summarizes the results of operations for the company's business segments[1]:

(dollars in thousands)	Commercial Foodservice	Industrial Foodservice	International Distribution	Corporate and Other[2]	Eliminations[3]	Total
2006						
Net sales	$ 329,215	$ 55,153	$ 56,496	$ —	$ (37,733)	$ 403,131
Operating income	85,267	8,396	3,160	(18,771)	(1,151)	76,901
Depreciation expense	2,749	508	110	52	—	3,419
Net capital expenditures	1,421	447	83	316	—	2,267
Total assets	211,289	45,445	27,764	7,650	(7,126)	285,022
Long-lived assets[4]	129,941	27,791	500	9,115	—	167,347
2005						
Net sales	$ 298,994	$ 2,837	$ 53,989	$ —	$ (39,152)	$ 316,668
Operating income	69,710	134	3,460	(15,367)	35	57,972
Depreciation expense	2,992	49	178	16	—	3,235
Net capital expenditures	1,006	—	275	95	—	1,376
Total assets	192,207	43,410	25,869	8,338	(5,906)	263,918
Long-lived assets[4]	129,958	26,922	400	5,003	—	162,283
2004						
Net sales	$ 257,510	$ —	$ 46,146	$ —	$ (32,541)	$ 271,115
Operating income	54,990	—	1,908	(19,751)	(775)	36,372
Depreciation expense	3,267	—	156	(273)	—	3,150
Net capital expenditures	888	—	197	114	—	1,199
Total assets	177,271	—	24,439	14,485	(6,520)	209,675
Long-lived assets[4]	121,529	—	412	3,722	—	125,663

(1) Non-operating expenses are not allocated to the operating segments. Non-operating expenses consist of interest expense and deferred financing amortization, foreign exchange gains and losses and other income and expense items outside of income from operations.

(2) Includes corporate and other general company assets and operations.

(3) Includes elimination of intercompany sales, profit in inventory, and intercompany receivables. Intercompany sale transactions are predominantly from the Commercial Foodservice Equipment Group to the International Distribution Division.

(4) Long-lived assets of the Commercial Foodservice Equipment Group includes assets located in the Philippines which amounted to $2,002, $2,095 and $2,184 in 2006, 2005 and 2004, respectively and assets located in Denmark which amounted to $1,307 in 2006.

Net sales by each major geographic region are as follows:

(dollars in thousands)	2006	2005	2004
United States and Canada	$ 326,023	$ 256,790	$ 219,377
Asia	25,779	23,399	20,846
Europe and Middle East	34,831	26,568	22,808
Latin America	16,498	9,911	8,084
Total international	77,108	59,878	51,738
	$ 403,131	$ 316,668	$ 271,115

(11) EMPLOYEE RETIREMENT PLANS

(a) Pension Plans

The company maintains a non-contributory defined benefit plan for its union employees at the Elgin, Illinois facility. Benefits are determined based upon retirement age and years of service with the company. This defined benefit plan was frozen on April 30, 2002 and no further benefits accrue to the participants beyond this date. Plan participants will receive or continue to receive payments for benefits earned on or prior to April 30, 2002 upon reaching retirement age. The employees participating in the defined benefit plan were enrolled in a newly established 401K savings plan on July 1, 2002, further described below.

The company also maintains a retirement benefit agreement with its Chairman. The retirement benefits are based upon a percentage of the Chairman's final base salary. Additionally, the company maintains a retirement plan for non-employee directors participating on the Board of Directors prior to 2004. This plan is not available to any new non-employee directors. The plan provides for an annual benefit upon a change in control of the company or retirement from the Board of Directors at age 70, equal to 100% of the director's last annual retainer, payable for a number of years equal to the director's years of service up to a maximum of 10 years.

A summary of the plans' benefit obligations, funded status, and net balance sheet position is as follows:

(dollars in thousands)	2006 Union Plan	2006 Director Plans	2005 Union Plan	2005 Director Plans
Change in Benefit Obligation:				
Benefit obligation – beginning of year	$ 4,695	$ 1,447	$ 4,161	$ 8,281
Service cost	—	1,222	—	846
Interest on benefit obligations	256	153	242	82
Return on assets	(202)	—	(190)	—
Net amortization and deferral	180	—	139	—
Pension settlement	—	—	—	16
Net pension expense	234	1,375	191	944
Net benefit payments	(211)	—	(206)	(7,778)
Actuarial (gain) loss	(56)	—	549	—
Benefit obligation – end of year	$ 4,662	$ 2,822	$ 4,695	$ 1,447
Change in Plan Assets:				
Plan assets at fair value – beginning of year	$ 3,738	$ —	$ 3,483	$ 3,965
Company contributions	165	—	336	3,813
Investment gain	307	—	125	—
Benefit payments and plan expenses	(211)	—	(206)	(7,778)
Plan assets at fair value – end of year	$ 3,999	$ —	$ 3,738	$ —
Funded Status:				
Unfunded benefit obligation	$ (663)	$ (2,822)	$ (957)	$ (1,447)
Unrecognized net loss	—	—	2,098	—
Net amount in the balance sheet at year-end	$ (663)	$ (2,822)	$ 1,141	$ (1,447)
Pre-tax components in accumulated other comprehensive income:				
Net actuarial loss	$ 1,736	$ —	$ 2,098	$ —
Net prior service cost	—	—	—	—
Net transaction (asset) obligations	—	—	—	—
Total amount recognized	$ 17,36		$ 2,098	$ —
Salary growth rate	n/a	7.5%	n/a	7.5%
Assumed discount rate	5.75%	5.75%	5.75%	6.00%
Expected return on assets	5.50%	n/a	5.50%	n/a

In September 2006, the FASB issued SFAS No. 158. One provision of SFAS No. 158 requires full recognition of the funded status of defined benefit and post-retirement plans. Adoption of this provision did not impact earnings. The company utilizes a November 30 measurement date for the calculation of union plan obligation, which would not materially differ from measurement at the fiscal year end.

The following table indicates the pre-tax incremental effect of the application of SFAS No. 158 on individual line items in the Consolidated Balance Sheet at December 30, 2006, for the company's plans (dollars in thousands).

	Before SFAS No. 158	Adjustment	After SFAS No. 158
Pension Plans:			
Prepaid benefit cost	$(1,073)	$ (1,073)	$ —
Accrued benefit liability	(1,736)	1,073	(633)
Accumulated other comprehensive income	1,736	—	1,736

The company has engaged a non-affiliated third party professional investment advisor to assist the company develop investment policy and establish asset allocations. The company's overall investment objective is to provide a return, that along with company contributions, is expected to meet future benefit payments. nvestment policy is established in consideration of anticipated future timing of benefit payments under the plans. The anticipated duration of the investment and the potential for investment losses during that period are carefully weighed against the potential for appreciation when making investment decisions. The company routinely monitors the performance of investments made under the plans and reviews investment policy in consideration of changes made to the plans or expected changes in the timing of future benefit payments.

The assets of the union plan were invested in the following classes of securities (none of which were securities of the company):

	2006 Union Plan	2005 Union Plan
Equity	26%	24%
Fixed income	36	50
Money market	38	26
	100%	100%

The expected return on assets is developed in consideration of the anticipated duration of investment period for assets held by the plan, the allocation of assets in the plan, and the historical returns for plan assets.

Estimated future benefit payments under the plan is as follows:

(dollars in thousands)	Union Plan	Director Plans
2007	$ 318	$ —
2008	305	40
2009	307	40
2010	303	40
2011	306	40
2012 thru 2016	1,613	3,312

In conjunction with the retirement of the former chairman of the board in December 2004, the company entered into an agreement to settle obligations relating to the former chairman's pension. As part of this settlement, the company made payments aggregating to $7.8 million, which were funded in part by existing plan assets, in the first quarter of 2005 to fully settle all pension obligations due to the former chairman. Contributions to the directors' plan are based upon actual retirement benefits for directors as they retire.

Contributions under the union plan are funded in accordance with provisions of The Employee Retirement Income Security Act of 1974. Expected contributions to be made in 2007 are $0.2 million.

(b) 401K Savings Plans

As of December 30, 2006 the company maintained four separate defined contribution 401K savings plans covering all employees in the United States. These four plans separately cover (1) the union employees at the Elgin, Illinois facility, (2) the union employees at the Lodi, Wisconsin facility, (3) the non-union employees at the Lodi, Wisconsin facility, and (4) all other remaining non-union employees in the United States not covered by one of the previous mentioned plans. The company makes profit sharing contributions to the various plans in accordance with the requirements of the plan. Profit sharing contributions for certain of these 401K savings plans are at the discretion of the company.

In conjunction with the freeze on future benefits under the defined benefit plan for union employees at the Elgin, Illinois facility, the company established a 401K savings plan for this group of employees. The company makes contributions to this plan in accordance with its agreement with the union. These contributions amounted to $206,000 for 2006, $219,600 for 2005 and $221,400 for 2004.

The 401K savings plans for both the union and non-union employees at the Lodi, Wisconsin facility are related to the business operations of Alkar Holdings, Inc. which was acquired on December 7, 2005. Contributions made to the union employee plan amounted to $168,800 for 2005. There were no contributions to the union employee plan for 2006. There were no contributions for the non-union employee plan for 2006 or 2005.

The company made discretionary contributions to the 401K savings plan covering all non-union employees other than those at the Lodi, Wisconsin facility relating to the plan year ended 2003 in the amount of $750,000. There was no discretionary profit sharing contribution relating to the plan for the years ended 2004 or 2005.

(12) QUARTERLY DATA (UNAUDITED)

(dollars in thousands, except per share data)	1st	2nd	3rd	4th	Total Year
2006					
Net sales	$ 96,749	$ 104,849	$ 103,239	$ 98,294	$ 403,131
Gross profit	35,524	41,727	40,575	39,051	156,877
Income from operations	15,148	20,279	21,021	20,453	76,901
Net earnings	$ 8,051	$ 11,090	$ 12,177	$ 11,059	$ 42,377
Basic earnings per share [1]	$ 1.06	$ 1.45	$ 1.59	$ 1.44	$ 5.54
Diluted earnings per share [1]	$ 0.97	$ 1.34	$ 1.48	$ 1.34	$ 5.13
2005					
Net sales	$ 74,889	$ 83,912	$ 80,937	$ 76,930	$ 316,668
Gross profit	27,072	32,586	32,476	29,519	121,653
Income from operations	12,003	16,337	16,284	13,348	57,972
Net earnings	$ 6,348	$ 8,969	$ 9,628	$ 7,233	$ 32,178
Basic earnings per share [1]	$ 0.85	$ 1.19	$ 1.28	$ 0.96	$ 4.28
Diluted earnings per share [1]	$ 0.79	$ 1.11	$ 1.19	$ 0.88	$ 3.98

(1) Sum of quarters may not equal the total for the year due to changes in the number of shares outstanding during the year.

(13) SUBSEQUENT EVENT

In February 2007, subsequent to the fiscal 2006 year end, the company entered into an agreement to acquire the assets and operations of Jade Products Company. The acquisition is expected to close on April 2, 2007.

SELECTED FINANCIAL DATA

Fiscal Year Ended[1] (amounts in thousands, except per share data)	2006	2005	2004	2003	2002
INCOME STATEMENT DATA:					
Net sales	$ 403,131	$ 316,668	$ 271,115	$ 242,200	$ 235,147
Cost of sales	246,254	195,015	168,487	156,347	156,647
Gross profit	156,877	121,653	102,628	85,853	78,500
Selling and distribution expenses	40,371	33,772	30,496	29,609	28,213
General and administrative expenses	39,605	29,909	23,113	21,228	20,556
Stock repurchase transaction expenses	—	—	12,647	—	—
Lease reserve adjustments	—	—	(1,887)	—	—
Income from operations	76,901	57,972	38,259	35,016	29,731
Interest expense and deferred financing amortization, net	6,932	6,437	3,004	5,891	11,180
Debt extinguishment expenses	—	—	1,154	—	9,122
Gain on acquisition financing derivatives	—	—	(265)	(62)	(286)
Other expense, net	161	137	522	366	901
Earnings before income taxes	69,808	51,398	33,844	28,821	8,814
Provision for income taxes	27,431	19,220	10,256	10,123	2,712
Net earnings	$ 42,377	$ 32,178	$ 23,588	$ 18,698	$ 6,102
NET EARNINGS PER SHARE:					
Basic	$ 5.54	$ 4.28	$ 2.56	$ 2.06	$ 0.68
Diluted	$ 5.13	$ 3.98	$ 2.38	$ 1.99	$ 0.67
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:					
Basic	7,643	7,514	9,200	9,065	8,990
Diluted	8,259	8,093	9,931	9,392	9,132
Cash dividends declared per common share	$ —	$ —	$ 0.40	$ 0.25	$ —
BALANCE SHEET DATA:					
Working capital	$ 11,512	$ 7,590	$ 10,923	$ 3,490	$ 13,890
Total assets	285,022	263,918	209,675	194,620	207,962
Total debt	82,802	121,595	123,723	56,500	87,962
Stockholders' equity	100,573	48,500	7,215	62,090	44,632

(1)The company's fiscal year ends on the Saturday nearest to December 31.

BOARD OF DIRECTORS

SELIM A. BASSOUL
Chairman of the Board
and Chief Executive Officer

ROBERT LAMB, PH.D. [1]
Professor
NYU Graduate School of Business

RYAN J. LEVENSON [1,2]
Principal
Privet Fund Management, LLC

JOHN R. MILLER, III [2]
President
E.O.P., Inc.
Publishers

GORDON O'BRIEN [2]
Managing Director
American Capital Strategies

PHILIP G. PUTNAM [3]
Managing Director
Flagstone Capital, LLC
Investment Bankers

SABIN C. STREETER [1]
Adjunct Professor and
Executive-in-Residence
Columbia Business School

ROBERT L. YOHE [4]
Independent Director
and Corporate Advisor

EXECUTIVE OFFICERS

SELIM A. BASSOUL
Chairman of the Board
and Chief Executive Officer

TIMOTHY J. FITZGERALD
Vice President and
Chief Financial Officer

TRANSFER AGENT AND REGISTRAR

LaSalle Bank N.A.
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CORPORATE HEADQUARTERS

The Middleby Corporation
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Elgin, Illinois 60120
847.741.3300
847.741.0015 Fax

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Chairman of the Audit Committee
(4) Chairman of the Compensation Committee

INDEPENDENT ACCOUNTANTS

Deloitte & Touche LLP
Chicago, Illinois

STOCK MARKET INFORMATION

The Middleby Corporation
is traded on the NASDAQ National Market
under the symbol "MIDD".

INVESTOR RELATIONS

For an investor package, annual report or
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Investor Relations
1400 Toastmaster Drive
Elgin, Illinois 60120
investors@middleby.com
847.741.3300
or visit www.middleby.com.

Selim Bassoul and NASDAQ President and CEO Robert Greifeld celebrate the opening of the NASDAQ stock market surrounded by Middleby employees, customers and friends.

Cover Photos

Front Cover

(l to r) Award-winning chef Paul Kahan of Blackbird restaurant in Chicago uses Southbend exclusively in his kitchen. He says his Southbend equipment is "the absolute best in the industry."

The Middleby companies are constantly working with customers and chefs in their test kitchens around the world. In this photo a group at Blodgett completes a two day hands-on training with Blodgett on-staff chefs.

The Middleby companies are known for their innovative thinking and forward-looking product development. This patented, non-clogging burner comes with a lifetime warranty.

On the road from coast to coast in its 2006 debut, the Southbend trailer logged 30,000+ miles, visited 40 states and had more than 3,000 visitors.

Back Cover

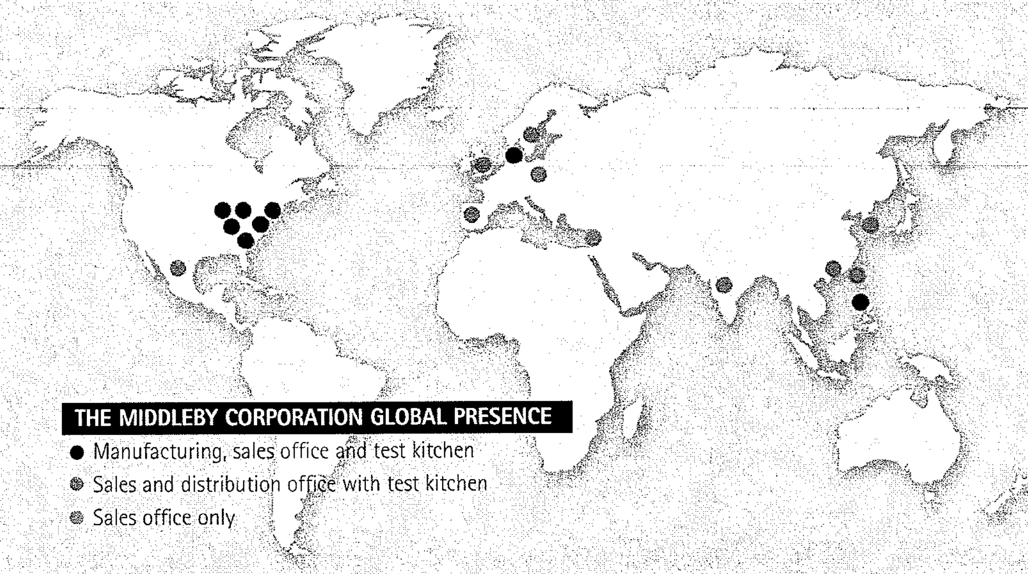
(l to r) Nu-Vu showcases its advanced cooking technology, the Rhapsody ComboBake, at the 2006 National Restaurant Show. This product received the prestigious Kitchen Innovations Award and was introduced to thousands of potential customers.

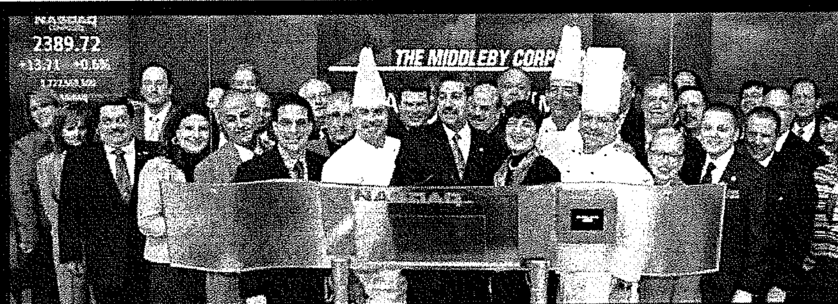
The Middleby Corporation employees, customers and friends open the NASDAQ stock market on November 13, 2006. Middleby stock performance ranked in the top 10 percent of all NASDAQ companies in 2006.

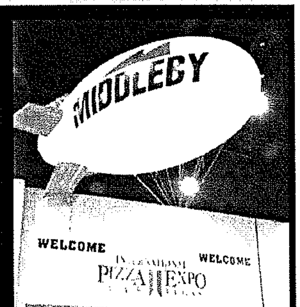
The Middleby blimp can be seen throughout the show hall at the 2006 International Pizza Expo where Middleby Marshall WOWs customers with energy-saving and fast-bake technologies.

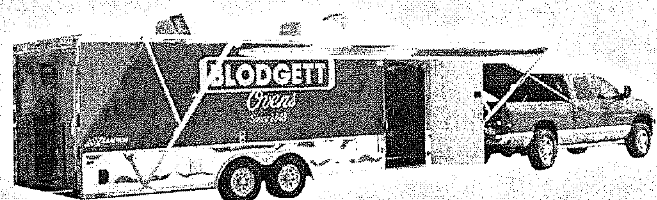
On the road since 2003, the Blodgett trailer is on the move to educate customers with the latest state-of-the-art cooking technologies.

THE MIDDLEBY CORPORATION









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